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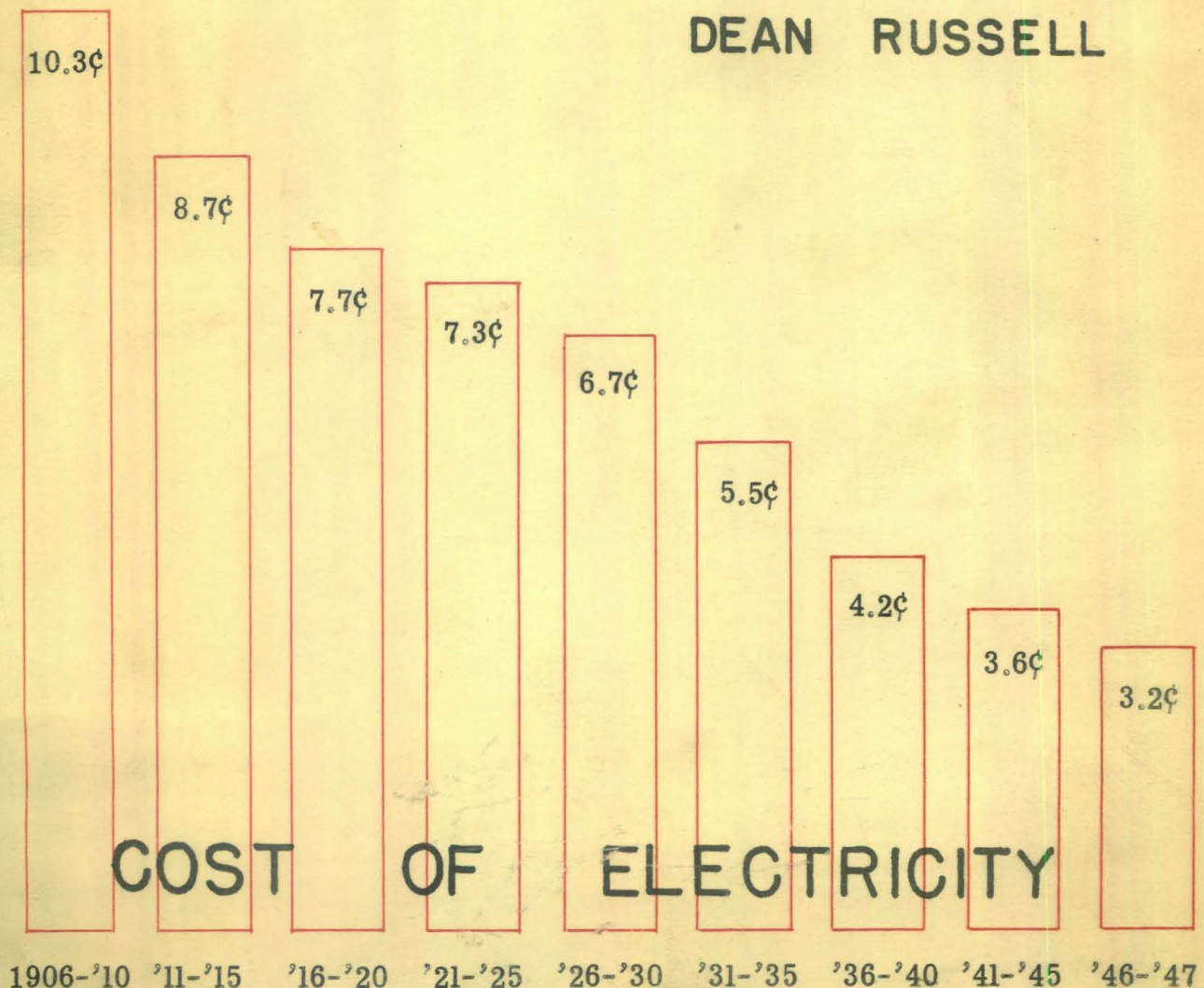
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# SHOULD POWER BE SOCIALIZED?

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## FOREWORD

The sole purpose of The Foundation for Economic Education is, by educational methods, to set forth the ideas and the related facts which underlie the voluntary society and the free market economy. No political implementation attends our efforts. Political action, so far as we are concerned, is reserved to individuals, acting in their capacity as citizens and in their exercise of the franchise.

A corollary part of the task that devolves on those who would describe the tenets of the voluntary society and the free market is to expose those ideas which would destroy such a society and economy. In this category are the ideas which underlie socialism: the state ownership and/or control of the means of production.

Obviously, it is next to impossible to examine, to present and to obtain a hearing for all the socialistic projects now under way in America. Socialism has a tremendous grip in these United States. One is justified in thinking of this country as "the land of the free" only because other countries of the world are less free. The market, for example, is free only by comparisons, not really.

Not being able to examine the whole range of socialistic activity we are more or less compelled to be selective, to particularize on some specific socialistic item, to do testings, so to speak. This being the case, why not choose the most difficult, the one highest in popularity, the *socialistic* project <sup>*now under way*</sup> having more support than others?

This line of reasoning brings us face to face with the socialization of the great electrical industry which, unless trends in thinking are reversed, will be totally under state ownership and control within the next decade or two. <sup>But a</sup> thorough report on so vast a subject as the electrical industry would result in material of such dimensions as to defy widespread reading and understanding.


Thus are we brought to the Tennessee Valley Authority, the TVA, the dream come true of the socialists, "the knight in shining armor" of socialism's movement in our country. By the socialist's own admission, TVA is it!

Here, then, is the piece de resistance of the economic supper the socialists would serve up to Americans. <sup>Therefore,</sup> This is what we have chosen for examination -- the best <sup>the socialists</sup> ~~they~~ have to offer. How, actually, is TVA working? How valid are the claims made for it? Are there unseen, unknown elements in this huge project which, if seen and understood, would alter present-day judgments? What, ultimately, lies in store for us with a general acceptance of the TVA idea? And, of far greater importance, are projects of this sort within the scope of the American ideal of government?

The TVA is something that symbolizes what we are doing to ourselves. Its support derives from <sup>numerous sources: from</sup> those who sincerely believe in the state ownership and control of the means of production; from others who rebel at the idea of themselves as socialists but who think they stand to gain in particular socialistic instances; and from those who have a blind faith that whatever is done by government is, ipso facto, good!

Anyway, it is our belief that the American citizen should understand the full meaning of present political actions when related to production; that he ought to have a keen awareness of where our currently charted course is taking us; and, thus informed, make up his mind.

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## A FUNDAMENTAL POINT

The Tennessee Valley Authority, as well as every other governmental venture into the field of production where there can be a profit or a loss, poses this dilemma. For instance, if TVA shows a profit, the government puts that profit into the general tax fund. Thus, in a manner of speaking, the government is taxing the relatively few TVA customers to subsidize the whole nation. On the other hand, if TVA shows a loss, that loss must be made up from the general tax fund. Thus all of the taxpayers are being forced to subsidize the relatively few TVA customers.

As a result of this dilemma, you may agree that the fundamental point concerning TVA is not efficiency or cost, profit or loss, but this: Is the production of electricity a proper function of government? If so, it should not necessarily be regarded as a strict business proposition. The cost -- like the cost of the Supreme Court -- should be purely secondary and not the determining factor. If the production of electricity is not a proper function of government, then there should be no TVA -- no socialization or nationalization of the electrical industry -- and the subject of cost would never come up.

Even if it were possible for government to produce electricity and automobiles cheaper than private enterprise, there are other factors -- such as force, coercion, monopoly and loss of freedom of choice -- that should receive more serious consideration. Those ideas are discussed last in this study. But for the benefit of those who wish to examine the

actual operating statements of TVA, the financial facts and figures are discussed first. This approach is deemed advisable because the most common argument for government ownership of power production is that "government can do it cheaper." But whether this discussion of TVA finances discloses a profit or a loss, it should be clearly understood that this writer does not consider accounting practices to be the primary factor in determining what is, and what is not, a proper function of government.

Let us begin this study of the cost of TVA by a brief and simple examination of the difference between economic law and political law; of the similarity between economic law and physical law.

Economic law is exactly the same in both Russia and the United States, as well as everywhere else. But the chances are that few Americans -- and fewer Russians -- realize this. The reason is that most people confuse economic law with political law. Yet, in reality, they have no connection whatever. Unfortunately, economic law can be -- and is -- violated by political law in America as well as in Russia. And most of the world's economic troubles stem from these impossible attempts to use political law to override economic law.

Many persons will disagree with this concept of economic law, just as they will disagree with the physical law that matter cannot be destroyed. They will contend that matter can be destroyed because they personally have destroyed it. But they haven't. They may have changed

matter from one form into another form -- such as water into steam, or iron ore into typewriters -- but matter has not been destroyed.

And the natural laws of economics are just as unchangeable as physical laws. For instance, it is a natural economic law that the cost of every article produced must be borne by someone. That fact cannot be avoided. Ordinarily, the buyer covers the cost in the price he pays. But if the producer can't find a buyer who will pay his price, the producer himself bears the cost through the loss of his labor or capital. Obviously he shouldn't continue to produce articles he can't sell or use. If he does, he will soon be hungry.

It is at this point that political law is used in an attempt to change economic law. The producer -- whether he be called "labor" or "capital" -- frequently refuses to accept the free market decree of economic law. So he uses political law -- his vote -- in an effort to change it. And for a while it may look as though it works. Millions of persons believe that it works. With their own eyes they have seen political law appear to repeal economic law through the medium of compulsory price controls, government-created monopolies, trade restricting agreements, subsidies, tariffs, cartels, etc. And when you try to tell those people that it can't be done, they usually answer, "It can be done because we did it!"

But they didn't. All they did was to change the form -- to transfer the cost elsewhere. Because when a person uses political law -- such as price ceilings, subsidies, floor prices, or whatever -- to get a better

bargain than natural economic law freely offers for his product or service, he is merely using his vote to force someone else to pay the difference. Every attempt to conceal the true picture by "bookkeeping" only increases the seriousness of the consequences. Every attempt to justify the action for "social reasons" only serves to confuse the issue. And every attempt to decide it strictly on the basis of "counting the votes" is worse than useless -- it is the primrose path to economic suicide.

Thus we have isolated one natural economic law: Someone must pay -- in one form or another -- for everything produced by human effort. This law is just as true as the law of gravity. There is just as much chance of voting away the physical law of gravity as there is of voting away the economic law of cost. And only disaster can result from ignoring this fact -- as it always has resulted throughout history when man has used political measures in futile attempts to override the economic facts of life.

Someone must pay the cost. With this in mind, let us examine the Tennessee Valley Authority. What is the cost? Who pays it? Who should pay it?

### INTEREST

Most controversial among the various TVA accounting practices is the subject of interest. Simply stated, it amounts to this: If no interest is charged on the money advanced to TVA by the government, TVA can claim that it operates at a profit; but if interest is charged, it must be admitted that TVA has shown a loss of more than \$100 million. (Table on Page 10.)

The general claim that interest is not a legitimate charge for public enterprise -- while it is a necessary cost of private enterprise -- is the keystone argument of those who believe that government ownership and operation of the means of producing electricity is superior to private ownership and operation. But TVA advances several specific arguments as to why it should be exempt from paying interest on the money that was borrowed to build TVA.

For instance, TVA sometimes claims that it is something apart from government. Thus, according to certain TVA officials, the politicians can't make a pork barrell out of TVA. But when it comes to the matter of paying interest on borrowed money, then TVA regards itself as being government owned and operated. Thus TVA can say, "Now wouldn't it be silly for the Federal Government to pay interest to itself"!

Indeed it would. But that is not the question. The yearly interest cost of more than \$5 billion on our national debt is paid to persons -- and to organizations such as insurance companies and savings banks --

who have invested in government bonds. And -- apparently contrary to popular belief -- it is not an abstract agency called "government" that pays this interest. You, the taxpayer, must pay all government-incurred debts, including the interest. Now, logically, who should pay that part of the debt and interest that has been caused by TVA -- you, or the persons who get the electricity and fertilizer?

Someone must pay the cost. TVA is one of the many deficit financed projects that caused the present size of our national debt. And you, the taxpayer, are still paying interest on the money that was borrowed to build TVA. You are paying it through higher taxes and higher prices. The next time you pay your private electric bill, remember that a part of your payment is taxed away by government to pay interest on the money it borrowed to build TVA. That is one of the reasons why TVA rates are lower than private rates!

At this point one may wonder if the money used to build TVA was actually borrowed. If borrowed, admittedly there might be considerable logic in charging the interest to TVA. But can it not just as well be assumed that all or most of the money used to build TVA came from taxes, and that the borrowed money was used to finance the Supreme Court and other similar functions of government? Thus, since no one claims that government should pay interest on the taxes it collects and spends, TVA should pay no interest.

There is considerable merit -- and confusion -- in that argument. This confusion is an inevitable result of governmental attempts to

combine functions that cannot be provided by a free market, with services that can be supplied by a free market. When both are financed from the same source -- the general tax funds -- the confusion becomes complete. The taxpayer has no positive way of knowing whether his taxes are used to provide "cheap" electricity for persons who live in Tennessee, or whether his taxes are used to support the judicial system and the police force that equally protect all citizens. As government takes over more and more services that the citizens once performed for themselves, the distinction between who pays, and who receives the benefits, tends to disappear altogether.

But regardless of the technical arguments for and against interest being charged on the capital investment of TVA, one fact is certain: It was originally claimed that TVA was to be a "yardstick" to measure the rates charged by private power companies. For this purpose, it was announced that TVA was to operate as much like a private power company as possible. But now, on this interest issue, TVA apparently wishes to use a short yardstick. That can hardly result in an accurate measurement.

While TVA -- with one minor exception -- never has recorded interest against itself, at least this statement by TVA shows that it was still considering this possibility as late as 1938: "The present decision [not to record interest] does not preclude a later redetermination of this question nor a setting up for comparative or other purposes of pro

forma statements which include interest during construction and other similar items." (1)

This study takes that statement at its face value. Interest is here recorded against the capital investment of TVA. The merit of the various opposing arguments is -- as it should be -- left for the reader to decide. For instance, was borrowed money used to build TVA? We know that from 1933 to 1941 our national debt was increased from \$22½ billion to \$55-1/3 billion. Certainly it is logical to assume that TVA is one of the deficit financed projects that caused this increase. We know that we are still being taxed to pay the yearly interest charges on this debt. We know that TVA is not paying interest on its capital investment. Should TVA rates be increased enough to pay the interest that you, the taxpayer, are actually paying on these deficit financed projects? TVA says, "No."

Another argument advanced by TVA as to why it should not increase its electricity rates enough to pay interest on its borrowed money is that "regulatory commissions . . . in fixing rates of return for private utilities do so without considering interest." (2) That statement is not true. Here are two examples of regulatory commissions considering interest in fixing rates of return for utilities. These two examples were selected at random from literally hundreds of similar federal and state power commission rulings, and federal and state judicial decisions, along the same general lines:

“(Mo. 1944) Rates producing net operating revenues which are more than ample to meet all interest and dividend requirements on bonds and preferred stocks and to allow dividends on common stock and a substantial addition to surplus provide an adequate return.” (3)

“(La. 1945) The allowable rate of return is such a percentage of the rate base as will yield enough money . . . to pay bond interest and sufficient dividends to maintain credit, attract new capital, reward good management, . . . ” (4)

So let's take a look at the TVA operating statements from 1933 through 1947, including the interest. With the exception of the last two columns of this table, these figures are taken from the indicated TVA annual reports. The rate of interest is determined as the average rate on outstanding United States bonds for the indicated years. That rate is then applied to the “proprietary interest of the United States” in TVA as shown in the annual reports of the Secretary of the Treasury.

TVA OPERATING STATEMENT

YEAR	Net Operating Profits on Electricity	(Net Expenditures of Other Departments)				Net TVA Profit	Interest paid by U. S.	Total TVA Loss
		Navi- gation	Flood Control	Ferti- lizer	Related Pro- perty and de- velopment			
				(Add 000)				
1934-37(incl.)	\$ 271*	903	744	4,506	6,612	13,036*	6,730	19,766*
1938	312*	432	414	1,862	1,993	5,013*	5,122	10,135*
1939	1,478	656	423	2,202	2,279	4,082*	5,862	9,944*
1940	4,299	856	445	2,473	2,256	1,731*	6,493	8,224*
1941	6,991	993	594	2,250	2,351	803	7,499	6,696 *
1942	3,673	1,076	633	2,584	2,522	3,142*	8,975	12,117*
1943	11,149 (a)	1,249	786	3,344	2,595	3,175	10,180	7,005*
1944	11,116 (b)	1,589	917	412	4,616	3,582	11,700	8,118*
1945	16,982 (c)	2,115	1,409	859	4,854	7,745	12,665	4,920*
1946	16,214	2,527	2,116	868	5,864	4,839	13,533	8,694*
1947	21,248	2,956	2,446	1,431	7,485	6,930	14,100	7,170*
14 Year Total	92,567	15,352	10,927	22,791	43,427	70	102,859	102,789*

- \* Loss
- (a) After deduction of \$2 million for additional amortization during 1943 of the electrical plant acquisition adjustments shown on balance sheet; 1943 report, p. 57.
- (b) After deduction of \$3 million for same item as (a); 1944 report, p. 67.
- (c) After deduction of \$1 million for same item as (a); 1945 report, p. 87.

Thus if the interest on the TVA investment is charged against TVA, a total loss of \$102,789,000 appears on the operating statement.

In addition, the Treasury also holds  $\$56\frac{1}{2}$  million in TVA bonds. This bond issue -- or, more accurately, the permission given TVA to borrow money through an interest-paying bond issue -- is additional evidence that the money used to build TVA did come from government borrowing instead of from direct taxation. Even then, by "special agreement" TVA pays only one per cent interest on its bonds. (5) The annual interest cost to the Treasury is about \$1,412,500. (6) TVA pays to the Treasury only \$565,000. The balance of \$847,500 is paid by you, the taxpayer. This figure varies from year to year because the government borrowing rate varies. Also, the Treasury originally held \$65 million, instead of  $\$56\frac{1}{2}$  million in TVA bonds. But a conservative estimate of this one subsidy alone decrees that another \$8 million interest charge should be recorded against TVA.

So far, that gives a grand total TVA loss of over \$110 million when the interest that is actually paid by you, the taxpayer, is charged against TVA. This does not include another yearly operating and interest cost that should be charged against TVA. This item is best summarized in the April 3, 1939 minority report of the Joint Congressional Committee investigating TVA: "Millions of dollars have been spent by other government agencies on behalf of TVA, which have not been included on TVA's books nor in its financial statements to Congress."

As a result of these various subsidies, recorded and unrecorded, TVA's rates average about 30% lower than private utility rates. What

would the rates have to be if TVA were obligated to pay the same costs as a private electric company performing the same services in a free market economy? One thorough and reliable study shows that the present TVA rates would have to be more than doubled under those conditions! (7)

There is yet another TVA subsidy that nowhere appears on its books. This subsidy concerns the transfer of government property to the TVA project. TVA denies that it received any subsidy on these transfers. Again, you, the reader, must judge. The question can best be understood by referring back to the old government-owned Muscle Shoals project.

TVA came into physical existence when Wilson Dam (the hydro part of Muscle Shoals) was transferred to it in 1933. Along with it came other government-owned facilities that TVA decided "have no present value to the Authority within the meaning of the . . . Act." (8) Since Wilson Dam was also a government hydroelectric project, a brief examination of its cost and income under government operation might prove enlightening.

Wilson Dam was started in 1918 by the United States Army Corps of Engineers. They completed it in 1925. Although the government received a competitive price for the sale of the electricity produced at Wilson Dam, the project never produced sufficient income even to carry its operating costs. No effort was made to hide this fact.

When Wilson Dam was transferred to TVA, the government had directly poured \$47 million of the taxpayers' money into it. (9) When interest and other costs -- actually paid by the taxpayers in one form or another -- are added to that figure, the total cost of Wilson Dam to the taxpayers becomes \$86.3 million. (10) But TVA took it over for \$31.3 million! (8)

Let's go through that one again -- slowly. On a certain day, the government owned and operated Wilson Dam at a total cost to the taxpayers of \$86.3 million. The next day, the government still owned and operated Wilson Dam. The cost was still \$86.3 million. But overnight the name was changed, and the cost figure altered. It was called TVA, and the cost was recorded at \$31.3 million!

How much of the total cost of Wilson Dam should have been charged against TVA? All of it? \$47 million? None of it? TVA had the privilege of setting its own value on Wilson Dam. It decided that this particular government hydroelectric project that cost the taxpayers a total of \$86.3 million was in fact worth only \$31.3 million. Probably their estimate was reasonably correct. But that decision casts considerable doubt on the TVA argument that government can build dams and produce electricity cheaper and more efficiently than private enterprise can do it.

TAXES

TVA claims that it should pay no federal taxes because it is the Federal Government. So, for tax purposes, we find TVA demanding recognition as being the Federal Government. But when it comes to paying interest, we have seen that TVA wishes to avoid its share of the government debt and the interest thereon. And for comparison of electricity rates with private utilities, it is insisted that TVA is just like a private business. Later on, we will find that TVA claims to be under the control of Congress -- until, for one reason or another, it finds it advantageous to show that Congress has no real control ~~after~~ *over* all. But be that as it may, should TVA -- a government project -- pay taxes?

TVA financial records now show a cost item called "payments in lieu of taxes" to local governments. The reason for these "payments in lieu of taxes" is as follows: It is reasoned that TVA has taken over many tax-paying industries. True. And TVA has taken many thousands of acres of productive land off the tax rolls. True. It is further reasoned that the tax load on the remaining privately owned land and businesses would have to be increased to make up the original amount. True. Therefore TVA pays money to local governments to make up a part of the local tax losses caused by the TVA project. Logical enough.

On the other hand, it is enlightening to speculate on the inconsistency between "tax losses" and "prosperity" -- both allegedly caused by TVA

at the same time. The local governments demand that TVA make up the tax losses it caused. But the local governments and TVA point with pride to the economic improvements caused by TVA. Which should be worth more to the local governments -- replacement of lost taxes or TVA economic improvement? Shouldn't they at least cancel out each other? If not, then are the alleged TVA economic improvements worth less than the taxes that would be available if there were no TVA?

But whether TVA should or should not pay local taxes, at least the same logic should apply to federal taxes. In regard to TVA, the same conditions apply to federal taxation as apply to local taxation. Federal taxes that resulted from the private ownership of land and businesses were also reduced by the TVA project. You, as a taxpayer, had to make up that loss in federal taxes. And you still do. Yet TVA makes no "payment in lieu of taxes" to the Federal Government!

Someone must pay the cost of TVA. That includes the negative tax loss as well as the positive construction costs. The costs can be included in the TVA electricity rates or they can be added to your tax bill, directly or partially deferred by government borrowing. There is no other choice.

If TVA were subject to the same costs that private electric companies must bear, TVA electricity rates would be about 40 per cent higher than the rates charged by private utilities. (7) Probably that was what Senator Norris -- the "father" of TVA -- had in mind when he said, "A proposal from a great association of Tennessee says, in

effect, 'Let TVA property be subject to taxation the same as everybody else's property.' . . . If we go to that extreme, Senators can see that the TVA would be out of business in three months.'" (11) To avoid that possibility, TVA seems to have followed this procedure:

First, TVA electricity rates were set well below the rates charged by private companies. This was done even before TVA had installed its generators. Next, as the project got under way, the TVA experts charged off a large part of the construction and operating costs to flood control, navigation, social services, and other projects. The full remaining costs were still too high to permit the predetermined electricity rates. So TVA just ignored those other costs of federal taxes and interest. Thus the whole world was offered "proof" that government ownership of the means of production is superior to private ownership. Even the Russians, who are having considerable difficulty trying to prove that same point, sent experts to Tennessee to see how TVA did it.

Meanwhile the remaining privately owned electric companies are obliged to keep your rates high enough to pay their share of the taxes needed to subsidize low rates for TVA customers. For example, in 1947 TVA paid in lieu of local taxes 3.93% of its total revenues received. (12) Private electric companies paid in taxes an average of 18.9% of total revenues received. (13) If TVA were privately owned, it too would have paid approximately 18.9% in taxes. Thus, from a comparative viewpoint, TVA received a federal tax subsidy of almost 15% of

its total revenues in 1947. And that tax subsidy -- over \$6½ million in 1947 -- has been going on ever since TVA was set up to "prove" the superiority of government ownership and operation. That \$6½ million tax subsidy does not include the other tax-free items -- such as gasoline, stamps, licenses, etc. -- enjoyed by TVA, but not by private utilities.

In defense of this subsidy, TVA says that private electric companies pay only a certain percentage of their profits as taxes to the Federal Government. TVA claims that it pays all its profits to the Federal Government, call it taxes or whatever you wish.

But the fact of the matter is that as a total project TVA has never had a profit. For the past few years, the TVA books have shown an item called "profit on the production of electricity." And TVA claims that part of this "profit" was paid into the federal treasury. In 1947 (for 1946), it was \$10-1/3 million. (14) Then Congress turned right around and appropriated \$40 million back to TVA! (15)

As TVA is quick to point out, most of the present yearly appropriations of your tax money to TVA is not used in the electricity program. Apparently TVA uses most of it to manufacture "free" fertilizer; to maintain "free" navigational facilities for barge owners, manufacturers and merchants; to attract new industries into the Tennessee Valley; to subsidize teachers to teach the TVA "idea" in schools and colleges; to pay for all those "other services" that TVA

decided should not be charged against the electricity program. But Congress did supply the money used to build the TVA hydroelectric dams. That money came from your taxes, either direct or partially deferred by government borrowing. And TVA is now asking Congress for a \$4 million additional appropriation of your tax money to begin construction of a \$54 million steam generating plant. So to say that the Congressional appropriations are not used in the TVA electricity program is plain double-talk. To say that any part of TVA shows a profit is questionable bookkeeping. To say that the TVA "profit paid into the federal treasury" is the equivalent of a federal tax, just doesn't add up.

The yearly TVA "profit" makes the headlines in your daily newspaper. The yearly appropriations of your tax money to TVA are seldom mentioned.

This convenient arrangement between Congress and TVA promises to continue indefinitely. Just now, the monetary cost to you is bearable. But it will grow progressively more unbearable if additional "profitable" TVA's are set up on the Missouri, the St. Lawrence and other rivers and regions.

Here is the comparative tax picture between private utilities and TVA for the past three years:

<u>(Fiscal year ending June 30)</u>	<u>1945</u>	<u>1946</u>	<u>1947</u>
TVA taxes as per cent of revenue	5.40%	5.85%	3.93% (12)
Private utility taxes as per cent of revenue	21.7%	20.4%	18.9% (13)

At this point, it may be argued: "Well, suppose that, as you claim, taxes from all the people are used to benefit TVA customers. What of it? Eventually all of us will get our money back in cheap electricity when the Federal Government builds a TVA, or some similar project, in every community."

That is the pernicious fallacy that is greatly responsible for the lack of opposition to the present rapid increase of government ownership and operation of the means of production in America. Many of the people who know that they are paying the bills, seem to believe that their turn to get something for nothing will be coming up soon.

It never seems to occur to those people that, even on a dollar and cents basis, they are choosing a most wasteful and costly method of getting things done. For instance, suppose that the Federal Government taxes \$100 million from the wages, salaries, pensions and profits of the persons in your state. Then, just as the politicians promise, the Federal Government seems to return that money to your state to build hydroelectric dams, hospitals, flood control projects, schools, etc. But -- and this is not generally understood -- only a part of the \$100 million is ever returned back to the people who have earned it. The government handling charges are high. Does the Federal Government keep 25%? 15%? Or how much? How many billions of dollars does it cost to support more than 2,000,000 federal employees, not counting the armed forces? According to Senator Harry F. Byrd, it will exceed \$7 billion for 1949. Yet that is only one of the many items that the Federal Government includes in its brokerage fee for collecting your tax money, carrying it

to Washington, "equalizing it," and returning the balance to your state to be spent as decreed by the Federal Government.

Again, cost should not be the primary reason for determining a proper function of government. But if the people in a region must have a government owned and operated electricity project, simple arithmetic indicates that a better bargain could be secured if the local or regional citizens did the job themselves.

### NAVIGATION

So far, this has been a discussion of TVA as a complete project. But TVA claims that its electricity program should not be charged with the entire cost. Since electricity is TVA's only income-producing item, there is no other place to charge it -- except to you, the taxpayer.

The cost of TVA so far to you, the taxpayer, ranges anywhere from the TVA acknowledged \$776½ million (16) to several reliable estimates that exceed a billion dollars. And, although the TVA advocates are quite willing to "prove" that the cost of the entire TVA project can be repaid out of income, they usually confine the self-liquidating claims to the electricity producing part of the project. The fertilizer, flood control, navigation and other projects are merely written off against the general taxpayers because "it wouldn't be fair to charge the cost of those projects against the electricity program." So, let's examine the logic used in dividing the total cost of TVA among the various uses of the TVA multiple-purpose dams.

So far, the total construction cost allocated to navigation is \$149 million. (17) The operating expense charged off to navigation in 1947 was almost \$3 million. (18)

Is that the proper amount that should be charged to navigation? TVA claims that it is. But TVA is the sole judge of how much it wishes to charge off to what!

One method of arriving at the true costs of TVA navigation is to use the test of alternatives. That is, how much would it cost to build a

complete navigation system all by itself? Logically, that portion of total TVA cost now allocated to navigation should be considerably less than the cost of a separate navigation project alone.

Fortunately, for purposes of rough comparison, such an estimate was made for Congress by the Army Engineers in 1930. This report concerned a contemplated project to do for navigation on the Tennessee River just what TVA later did. There is no logical reason to suppose that the Army Engineers are any more or less efficient than TVA engineers. The applicable part of that report is quoted here: "If the development of navigation were desired without being combined with power development, a project could be constructed which would provide 9-foot navigation from the mouth of the river to Knoxville by means of 32 low dams . . . with locks 110 feet wide and 600 feet long . . . at an estimated cost of \$74,709,000, with \$40,000 annually for the maintenance and operation of each dam . . . ." (19)

This estimate by the Army Engineers does not necessarily mean that they considered the project economically feasible. The real test of that would be an offer by them, or others, to back that estimate with their own money. Nor does this mean that the Army Engineers, any more than the TVA engineers, would have completed the project at the estimated cost. Their record is far from spotless on these estimates. But this estimate still roughly indicates that even with the additional overhead and other expenses that would have gone with a separate project,

the Tennessee River could probably have been made navigable on its present scale for about \$75 million. TVA has written off twice that amount against navigation. (17) This automatically reduces the costs charged to power production. That in turn permits lower electricity rates to TVA customers.

The Army Engineers estimated the total yearly operating expenses for the separate navigation project at \$1,280,000. (19) In 1947, TVA wrote off operating expenses of almost \$3 million against navigation. (18) That was charged to you, the taxpayer. And that was not all. That \$3 million figure does not include the yearly \$400,000 (1947) War Department expense for operating and maintaining the TVA navigation locks. (20) Nor does it include the yearly Coast Guard expense of (for 1947) "\$170,000, excluding depreciation and capital costs." (21)

When a private electric company builds a dam across a navigable river, logically enough it pays these costs out of income from the sale of electricity. But the government has decided that it would not be "fair" to place such charges against the TVA power program! Thus, again, TVA is able to undersell the private producers of electricity.

TVA is exceedingly proud of the many new river terminals it has built or subsidized on its 9-foot deep, 650-mile long water-road. But most of the TVA publicity is directed toward the "low cost" of this river shipping. This "low cost" is the main selling point used by TVA to attract shippers to use the "free" Tennessee River water-road.

The fact that the entire cost of the water-road is paid by you, the taxpayer, seems to be ignored as a mere detail. Admittedly, you are paying money for something you don't use, but, as TVA points out, look how much money is saved by the persons who do use it!

Someone must pay the cost. If the government must build navigational facilities, why shouldn't the cost be paid by the shippers who use the water-road? Why should your money be taxed from you and used to subsidize an automobile dealer in Tennessee so that he can make a higher profit? TVA has an answer for that. It says that the automobile dealer -- and all other dealers who save by using the TVA water-road -- should pass that saving along to the consumers. But, except where competition enters the picture, there is no assurance that the alleged saving will in fact be reflected in lower prices. Anyway, why should the consumer be any more entitled to a government subsidy than the shipper?

Thus TVA -- as is always the case when government interferes with the workings of a free economy -- must use force and coercion in an attempt to accomplish its announced aim. To insure "cheap" electricity rates to Tennessee Valley customers, it already forces price-fixing upon its so-called independent cooperatives. And to insure that its "cheap" transportation be reflected in consumer prices, it would also have to force price-fixing upon the shippers and retailers. They would have to be compelled to charge prices that TVA considers "fair."

This governmental attempt to repeal the laws of economics has resulted in this queer situation: If the freighters on the Tennessee River had to pay the cost of the water-road improvements, there would be

little, if any, freight left on the Tennessee. There wouldn't even be as much traffic as there was before TVA arrived on the scene! Since the cost of the improvements have run the real cost of water transportation far above the cost of shipping by rail or truck, even the pre-TVA shippers would be driven off the river -- if they, instead of you, the taxpayer, had to pay the cost.

So let's take a look at the figures. The average distance travelled by a ton of freight (ton mile) on the Tennessee River has increased since TVA began its navigation project. But contrary to popular belief, the actual tonnage of freight on the Tennessee has decreased. A TVA chart shows 2.5 million tons of freight on the Tennessee in 1930. (22) The same chart shows 2.2 million tons in 1940. A decrease of 300,000 tons after TVA had poured millions of your tax dollars into its super waterway! It should be pointed out that TVA is not necessarily responsible for this decrease in tonnage. Probably TVA has not materially affected it one way or the other.

In 1938 TVA estimated, "It is reasonable to base present computations on an assumed movement of 8 million tons, a figure which should be reached in 1946 . . . ." (23)

In 1946, the amount of freight was 2.4 million tons. (24) This was less freight than in 1930 when TVA navigation was still a dream instead of a government project to "increase the amount of freight on the Tennessee."

Suppose that mistake had been made by a privately owned business? What would have happened if a large transportation company had missed its estimated turnover by almost three-fourths? Fortunately, that company would have lost its capital and would have been out of business. Then, in a free market, the persons who could produce would do so. But in a government business like TVA, the inefficient are protected at your expense. When they make a mistake, the government merely collects additional amounts of tax money from the private railroads, electric companies and you. This money is then turned over to the same government agency, run by the same persons, to repeat the same planned mistakes all over again.

Of course, TVA claims that its socialized transportation is superior to private transportation. As a typical example, TVA states that, "These savings [on grain shipments] average \$1.75 per ton, as measured by the difference between charges for barge-rail and alternative all-rail movements." (25)

TVA does not mention the fact that the government used your tax money to build the TVA navigational project. And a part of your present tax payments is still used to pay the yearly overhead charged off against navigation by TVA. Meanwhile the private transportation companies must supply their own funds for both construction and overhead.

A true perspective of the value of TVA navigation can be secured by comparing freight costs on the Tennessee River and on railroads in

the same region. The actual cost of maintaining navigation on the Tennessee in 1947 was about \$8-3/5 million. In 1944, it was about \$7 million. This includes the actual annual maintenance expenditures by TVA and the Army --plus the estimated interest on maintenance expenditures and estimated interest on capital investment. (26) In other words, it includes the total estimated interest that you, the taxpayer, paid on money allocated to TVA navigation.

<u>Ton-miles of freight (27) on Tennessee River</u>		<u>Estimated cost per ton-mile</u>	<u>Average rate per ton-(28) mile on railroads in the Southern region</u>
1944	159,495,634	4.37 cents	0.976 cents
1945	258,465,193	2.88 "	0.993 "
1946	192,805,241	4.13 "	1.000 "
1947	350,000,000	2.45 "	1.094 "

This estimated cost per ton-mile on the Tennessee River does not take into account charges to shippers for moving the freight. Nor does this comparison reflect other services that shippers receive from railroads but not from TVA.

These figures and facts on TVA navigation lead to a basic principle of economics: If a project costs more than it is worth, it shouldn't be built. The only accurate measure of its worth to a potential user is the price that is voluntarily offered. If the shippers using the Tennessee River are willing to pay rates that reflect a \$149 million construction cost, plus a \$3 million yearly operating charge, plus interest, taxes and the other customary costs of doing business, then they should have

the navigational improvements. But if they don't think that the improved service is worth the cost, then the navigational project is a failure. The service should be limited to whatever the shippers are willing to pay.

Meanwhile, the government should stop wasting the taxpayers' money on navigation projects that are actually economic liabilities instead of assets; that are designed to benefit a few at the expense of all. It could begin by charging enough tolls against Tennessee River shipping to pay the full cost of the navigational improvements. Of course, the shippers would then ship by rail instead of by water, but at least the facts of "low cost" water transportation on the Tennessee would be visible to everyone. And TVA could no longer produce "cheap" electricity by writing off a large part of the cost to navigation. That cost would then be charged against the electricity producing program where, if anywhere, it belonged in the first place.

### FLOOD CONTROL

TVA's flood control project is most difficult to evaluate. The reason is twofold: First, apparently most Americans just feel that any flood control project is good, regardless of its monetary costs and political implications. Secondly, there is no exact method of measuring the claims and counter-claims of the monetary value of TVA's flood control activities. At best, it can be only a rough estimate. Fortunately, for comparative purposes, in 1938 TVA made such an estimate of the value of its flood control operations in the Tennessee River Valley. The estimate was based on the dollar value of yearly flood damage before the TVA flood control project. TVA decided that \$1½ million was a fair estimate of the average yearly flood damage that it would stop in the Tennessee Valley. Then TVA arbitrarily increased its own estimated protection-value by 50% to cover "intangible benefits." Thus TVA's estimate of its own flood control value cannot be called low. The vital part of the study is quoted here: "The estimate of gross annual benefits in the Tennessee Valley thus becomes \$2,250,000. If these benefits be capitalized at 4 per cent, the value of complete protection is determined as \$56,250,000. However, the Authority's storage reservoirs will not furnish such complete control as to eliminate all the damage. It will be necessary for Chattanooga and other communities to invest considerable sums in local flood-protection works in order to gain full protection. Such local works will cost on the order of \$20,000,000. If this be deducted from the above total figure, the remaining \$36,250,000 may be

said to represent the contribution of the Authority's development toward flood benefits." (29)

TVA estimated the value of its total contribution to flood control on the Tennessee River at \$36,250,000. By July of 1947, TVA had charged off \$152,916,436 in construction costs on flood control! (30) The yearly interest alone on this figure (using TVA's 4 per cent capitalization) is over \$6 million. Yet TVA estimated that the yearly flood damage it prevents is only \$1½ million. That would appear to be a relatively poor bargain.

The picture becomes even more questionable when other facts are considered. For instance, according to an Army Engineer's report, a flood that would cover 666,154 acres of land can be expected once in 500 years in the Tennessee Valley. (31) Yet TVA has acquired 1,131,286 acres of land for its flood control program. This is an area 1½ times the size of the entire state of Rhode Island. Excluding the river channel itself, 463,000 acres of this land are now submerged below the normal level of the man-made lakes! (33) An additional 128,000 acres are flooded from time to time when the reservoirs are full. (33)

In other words, once every 500 years there is likely to be a flood that will flood as much land as TVA has permanently flooded to stop floods! As the Chairman of the House Committee on Flood Control Projects put it, "... careful estimates aver that substantially all the

lands that were formerly overflowed by flood waters are now condemned as bottoms for reservoirs." (34)

Now comes the vital question, "Has the TVA flood control program stopped floods and flood damage in its area?" The answer is "No." TVA flood control officials readily admit that 100% control of soil erosion, and complete reforestation, would not stop floods. In fact, the worst recorded flood in Tennessee River history was in 1867 when soil erosion and lack of forests could hardly have been considered an acute problem resulting from "short-sighted private enterprise" in farming. And the chances are that the greatest floods of all happened before even one tree was chopped down by a white man. At least the records of DeSoto's expedition (and others) reveal widespread flooding in the Mississippi and tributary valleys "at a time when the primeval forests and native prairie grasses covered the entire Mississippi River Basin."

Thus it develops that floods are caused by nature instead of by man. This fact does not deny that man has in many instances contributed to the destructiveness of the floods caused by nature. Nor does it deny that man should attempt to control floods under certain conditions. But he should attempt this control only if the gain promises to be worth the cost.

If, as a simple example, yearly flood damage is one dollar, it would not be advisable to spend two dollars a year to control it. TVA also recognizes this principle: "Unless the prospective benefits assume proportions sufficient to justify the expenditures required, a project

cannot be considered defensible." (35) That is a logical principle to follow. So let's apply it to the entire TVA flood control program.

The Army Engineers estimated the average annual flood damage in the Tennessee River Valley at \$1,784,061 before TVA moved in. (31) TVA has no material disagreement with that figure. Much of that estimated damage occurred on tributaries of the Tennessee where TVA has not built flood control dams. In the words of Mr. E. N. Munns of the United States Forest Service as recently stated before a Congressional committee, ". . . Now, there have been numerous floods in the tributaries in the Tennessee Valley. Such cities as Ashville, for example, have experienced quite often serious floods because the flood protection works in the main stem do not provide flood protection to the higher elevations of the tributary areas. The TVA has asked us in times past to help them out in some of their flood problems in such rivers as the Flint in Alabama and the French Broad River." (36) By and large, those tributary sections will shift for themselves during flood seasons just as they did before TVA arrived on the scene.

On the main stem of the Tennessee River itself, according to the Army Engineers, "The greater part of the average annual damages . . . is caused by floods at Chattanooga." (37) And we have already read the TVA statement that Chattanooga must spend about 20 million additional dollars on levees to protect itself from the floods that most people thought TVA was going to stop!

But the TVA flood control program continues to take good land off the tax rolls and out of production. And this land that has been permanently flooded to prevent occasional flooding, was not barren and unproductive hillsides. Much of it was rich valley land -- among the best and most productive in Tennessee. For instance, the President of the University of Tennessee estimated an annual crop loss of \$1,250,000 for the area permanently flooded by the Douglas Dam. (38) And the Tennessee Farm Bureau estimated a 1941 crop loss of \$13,400,000 due to TVA flooding of bottom lands along the Tennessee River. (39) Compare that figure of over \$13 million on lost crops to the Army Engineers estimated damage of \$1-3/4 million if there had been no TVA!

The TVA "Great Lakes of the South" do provide fishing and swimming facilities. There is no denying that. It is also true that TVA is able to produce "cheap" electricity by charging off a large part of the expense to flood control. And you, the taxpayer, are forced to pay the difference.

At this point, defenders of TVA will claim that the TVA flood control program is also worth from \$100 million to \$200 million in flood control benefits in the Ohio and Mississippi valleys -- particularly the lower Ohio and Upper Mississippi.

According to TVA, it operates its flood control program as it wishes -- except during Mississippi River floods. Then the Army Engineers assume command. And the entire TVA flood control system

is devoted to keeping the flood waters of the Tennessee River from flowing into the Ohio River -- which in turn lowers the amount of flood water flowing into the Mississippi.

Certainly the holding back of the Tennessee decreases the amount of water that would naturally flow into the Ohio and Mississippi. The question is, "How much"?

TVA estimates that under certain conditions its flood control project could reduce the flood height on the lower Ohio and upper Mississippi as much as two feet. That estimate is probably correct. But the "certain conditions" are not always present. The tributaries of the Ohio, Missouri and Mississippi are not necessarily all in flood stage at the same time. There can be destructive floods on the Mississippi even when the flow of the Tennessee River is relatively normal. And it is also possible for the Tennessee to be in violent and uncontrolled flood without causing any appreciable damage along the Mississippi. Even if the Tennessee River drained east into the Atlantic, floods on the Mississippi would generally be about as destructive as ever. When all the tributaries of the Mississippi are in flood, admittedly the holding back of the Tennessee can be of considerable value. But obviously the Tennessee cannot be held back indefinitely. So even then, a prolonged flood might mean only the postponing of the damage.

On the other hand, as TVA claims it did for Cairo, Illinois, in the spring of 1945, the holding back of the Tennessee could mean the difference between extensive damage and relatively minor damage. During

that flood, TVA estimates that its flood control efforts reduced the flood gage at Cairo by 0.7 to 1.7 feet. (40) Since the river at Cairo rose to within six inches of the top of the levee, TVA claims that it kept the flood waters out of the city.

Thus, Cairo may be led to depend on TVA for its safety. But a variable of nine or ten inches in a flood stage that gages from 50 to 60 feet, is hardly to be considered an adequate safety margin. Just a few additional hours of rain or thaw would more than wipe it out.

So, while TVA does contribute to flood control on the Mississippi, it is hardly justified in making such fantastic financial claims or in charging off to flood control many costs that correctly should be charged to electricity. Nevertheless, it is this flood control program that TVA uses as its main excuse for expanding. Already it has complete ownership and control of an area half again as large as our smallest state. That is merely the amount so far. There is no law to prevent TVA from owning and controlling as much land as it deems necessary for its flood control and other projects. So let's take a look at the theory behind government aid for navigation, irrigation, flood control and other similar propositions.

Just because navigation is mentioned in the Constitution, many Americans seem to believe that the Federal Government must support all navigation projects. Likewise, just because the Supreme Court has ruled that flood control can be implied under the navigation clause, most

people seem to believe that flood control is the responsibility of the Federal Government. But is it? The story of how the people living in the Miami River Valley in Ohio solved their flood problem -- from both the engineering and financial viewpoints -- may here prove of interest for comparative purposes. (41)

In 1913 a disastrous flood occurred there. Three hundred and sixty persons were killed, and there was direct property damage of \$66 million.

The cost of an adequate flood control project was estimated at \$25 million. The persons concerned -- all who lived in the valley or who owned property subject to flooding -- decided to build the necessary flood control dams. The cost was financed by a bond issue. All the property owners in the Miami Conservancy District were assessed on the basis of benefits received, as far as it was deemed possible to do so.

The idea of paying the cost of the Miami River flood control project by using the same dam for both flood control and the production of electricity was also discussed. It was ruled out by the following reasoning: The property owners were interested primarily in flood control. Competent engineers warned them that effective flood control and dependable power supply require two different types of dams. For the most effective flood control, it is desirable to have the reservoirs completely empty and ready for the flood waters. If the dams are full of water when the floods come, obviously they will be of no value for flood control. But for dependable power supply, it is mandatory to

have a high dam completely filled with water at all times. Otherwise there may not be enough water to turn the generators. As we shall see in Chapter 11, this dilemma can be solved by first building separate reservoirs on the tributaries of the river to be used for flood control only, and then building power dams on the river itself to be used for producing electricity.

TVA decided to combine both of these functions -- as well as navigation -- into the same dam. First it built its multiple-purpose dams high enough to give the constant powerheads needed for electricity production. Then, in essence, TVA added sluice gates at that point, and built flood control dams on top of the power dams. It would be pointless to say that this can't be done. TVA has done it! And if you wish, you can find reputable engineers today who will take opposing viewpoints on the merits of using one dam for three different problems.

The Miami Conservancy District engineers and taxpayers also considered this same idea. They ruled out the multipurpose dam for two reasons: First, they did not have the U.S. Treasury footing the bill. That makes a difference when plans and projects are being considered. The local taxpayers were paying for the Miami dams. They insisted on getting a dollar's worth of value for every dollar spent.

Secondly, the local property owners wanted effective flood control. On the advice of their engineers, they decided that the best type dam for this purpose was an automatic reservoir-dam that did not depend on manual operation in times of a flood emergency. Here is a

simple description of the solution that they used: The dams are built with openings at the bottom of the dams a little larger than is necessary to carry the normal stream flow. In time of flood, the enlarged streams can't get through these openings. So the excess flood waters must back up into the reservoirs. The dams are high enough to hold any known flood, plus a wide safety margin. Then, when the flood is over, the excess water gradually drains itself away through the permanently open sluice gates in the dams. Thus, the reservoirs are soon empty and ready for the next flood.

The TVA multiple purpose dams depend on the judgment of men during a flood. The flood gates are opened or closed, depending on many considerations. For instance, consider the implications behind this quotation from a TVA annual report: "During the period of emergency war power demand, Cherokee, Chatuge, Nottely and Douglas, although multiple-use dams, were considered separately from the remainder of the system, and their costs were assigned entirely to power purposes. Since February 1, 1945, the entire system has been operating in conformity with its normal multipurpose functions, and the costs of these dams have been allocated accordingly." (42)

Thus, for a considerable period of time, those four dams were used exclusively for the production of electricity. They were of little or no value for flood control purposes. But TVA still maintains the fiction that its power program is secondary to flood control!

TVA's explanation of this open violation of its stated primary purpose of controlling floods is that production of electricity for emergency war work was more important than flood control. That may well have been true, but TVA can declare anything to be an "emergency." And there is always the temptation to keep the dams filled for extra power production. If TVA misjudges the flood season, or if there should be an unexpected flood, or if any of the multipurpose dams are ever again used exclusively for the production of electricity, the results could be disastrous. It was this remote possibility of disaster that caused the engineers and citizens within the Miami Conservancy District to have this warning engraved on each dam: "The dams of the Miami Conservancy District are for flood prevention purposes. Their use for power development or for storage would be a menace to the cities below."

There is another aspect of this federal aid theory that needs looking into. It begins with the early settlers in America. Some of them chose to build their homes near the rivers. Others preferred the semi-arid or desert country. Still others chose the mountains.

Those who chose the river valleys expected floods in the spring. But there were other compensations that, in their estimation, outweighed the floods.

Those who chose the western plains and California knew that there was a shortage of water. But other compensations caused them to stay.

The mountain dwellers knew from the very beginning that flat, fertile land was not to be had in quantity. They stayed anyway.

But now many river valley dwellers claim, "It isn't fair. We want to live in the valley, but we want the river to stop overflowing its banks every spring. Someone ought to do something about it." Apparently by "someone," they mean the Federal Government and the general tax funds.

Next come the present inhabitants of the desert and semi-arid sections of our country. The attitude of many of them seems to be, "We didn't ask to be born in a desert. Therefore the government must supply us with as much water as anyone else gets."

And so Hoover Dam, and other similar federal projects, were built -- at your expense.

Is there even one logical reason why the people who reap the benefits shouldn't pay the cost? The irrigation of Southern California and other similar sections has increased property values many times over. Why shouldn't those property owners build the dams and pay the irrigation costs? They are the ones who reap the profits. Yet you, as the general taxpayer, pay the cost!

So far, the mountaineers haven't demanded that the government cut off the tops of all the mountains and grind up the rocks so that the local inhabitants can have farm land like that in Iowa. But that proposal would be of the same type as federal flood control projects and federal irrigation projects. Exactly the same line of "reasoning" must be used in all three cases. If irrigation in California indirectly benefits you, then the rich flat-lands in the mountain areas will also indirectly

benefit you. And if the priority is to be decided on economic feasibility instead of political expediency -- as is always claimed by those who favor government ownership and operation -- then the only impartial judgment is what the persons concerned are willing to pay. If the project is worth its cost, the people themselves will voluntarily pay for it. Meanwhile, there is no more justice in taxing the mountaineers to pay for irrigation, than there would be in taxing Californians to pay for levelling mountain tops into flat-lands.

The Californians who want more water could move to Tennessee, or they could pay to have the water piped in. And the persons who object to floods could move to a desert, or pay the cost of building flood control reservoirs. But why should they move or pay, when, apparently, all they need do is vote? And when that fallacy comes home to roost in the form of high taxes and high prices, those same people seem to be in favor of voting them away too. Considering their experience so far, no one should be surprised that they try it.

Finally, as a recent and internationally discussed example of government and flood control, let us briefly examine the 1948 Columbia River flood disaster. This complete item appeared on the front page of The Washington Post of June 3, 1948: "Prague, June 2 (NYHT) -- The Columbia River floods and ensuing loss of life and property were analyzed today by the Communist-controlled press as the responsibility of 'trusts' and the deficiencies of the capitalist system."

Oddly enough, many of our own politicians are saying much the same thing. They are using this Columbia River disaster for all it is worth to increase government ownership and operation of the means of production. And since most Americans are compassionate and charitable persons, there is great danger that we may embrace socialism in the guise of flood control.

So before fixing either the blame or the solution for this particular disaster, it might be an excellent idea to see who was responsible for building Vanport City, Oregon, on a flood plain. The following extracts are taken from a summary story by reporter Sam Stavisky in The Washington Post of June 13, 1948: “. . . Early in 1942, Henry Kaiser began to seek housing for his expanding shipyards . . . . In September of 1942, the Federal Public Housing Authority signed a contract whereby Kaiser was to build the houses and Uncle Sam finance them . . . . Within 30 days all interested governmental agencies -- Federal, State, county and city -- had agreed on the site Peninsula Drainage District No. 1, or Vanport City. . . . The advantages of the site were overwhelming, despite the recognition that the lowlying tract -- bounded and crisscrossed by rivers, sloughs and lakes -- was ever in danger of seasonal floods. Still, the site was girdled by four walls of earth, and the authorities, Federal and local alike, agreed the dikes would hold back the anticipated floodwaters . . . . In 1940, United States Army Engineers had rebuilt the north and south dikes . . . . When the U. S. Army Engineers completed their levee project, the dikes were turned over for

management to Peninsular Drainage District No. 1, a local administrative unit. . . .After the war, some 18,000 persons were living there. . . .On May 20, the Columbia was running at the 15-foot flood stage level. . . .The danger was now at hand. . . .An emergency council was formed in Vanport to plan for any eventuality. Engineers of the housing project, drainage district, railroad, etc., kept in constant communication. The Army Engineer Corps assigned two officers to the area. Heads of the Portland Housing Authority, a local body which managed Vanport City for the Federal Government, joined in the 24-hour vigil and consultations. Close watch was kept for leakages, seepages, and sandboils as the water steadily rose about a foot a day around the ring of dikes. . . . The emergency council met Saturday, and decided that if anything the situation appeared favorable. It was agreed, nonetheless, to issue a bulletin. . . .‘The flood situation has not changed since the prediction made last Thursday that highest water would come next Tuesday, that the dikes were high enough and strong enough to withstand the crest, and that barring unforeseen developments, Vanport is safe.’. . . Within two hours after the breakthrough, Vanport City was drowned in story-high flood waters. . . .”

So there we have it. In the final analysis, Vanport City was primarily “planned” and “managed” by government -- Federal, State, county and city. All of them approved the flood-plain site for the government housing project. Government built the dikes and levees to control the floods. Government subsidized new industries to move onto

the flood plain. Government built huge multiple-purpose dams to control floods, to aid navigation, and to reclaim arid or swamp lands. From beginning to end, the whole project was planned and built by government; or was built under government supervision; or was approved by government.

Then the floods came -- earlier, bigger and of longer duration than the government planners had expected. The government-approved and government-constructed dikes and levees crumbled. The government-built multi-purpose dams proved of little, if any, value whatever in controlling the floods. The government-planned city that was built on a flood plain was inundated. The government-approved housing projects were washed away. The government subsidized industries were flooded. Lives were lost. Property damage ran into the millions.

The Communists and certain American politicians blamed free enterprise! The people appealed to government to "save and protect" them! Apparently they were completely unaware of the fact that government planning was primarily responsible for getting them there in the first place. Or if aware of it, apparently many people seem to believe that the remedy for the mistakes of limited government planning is unlimited government planning.

Thus many particles of freedom were mixed with the remnants of government planning and mutilated bodies that washed down the Columbia River. As a result of that disaster, there will be increased pressure

for a complete Federal Authority on the Columbia River as on the Tennessee River "to control floods and to bring the blessings of government planning to an entire region, at no cost to the taxpayer."

NATIONAL DEFENSE

One of the announced purposes of TVA is to contribute to national defense. This statement by a well-known columnist in The Washington Post of March 31, 1948, is quoted only because it is typical of the many claims about TVA's contribution to the war effort: "Without TVA power, the aluminum to build 50,000 airplanes a year during the war could never have been produced. If TVA had not been built, the war might have lasted two or three years longer. These are demonstrable facts."

Thus it would appear that TVA is primarily responsible for the production of 200,000 airplanes! And since TVA might have shortened the war by "two or three years," it would appear that TVA deserves full and exclusive credit for saving two or three million American lives and hundreds of billions of American dollars.

It is impossible to make an accurate comparison between the war effort of TVA and, for instance, the United States Steel Corporation. But if we tried it on the basis of the above "logic," we might discover that if it hadn't been for U. S. Steel, the resulting shortage of ships, tanks and landing barges might have caused the war to last five to ten years longer. Thus U. S. Steel, like TVA, would appear to deserve full and exclusive credit for saving the lives of possibly ten million American soldiers. And the number of dollars thus saved by U. S. Steel would exceed the limits of imagination.

The probable truth of the matter is that if there had been no U. S.

Steel the war would not have lasted one minute longer. There would have been other steel companies. Or the existing steel companies that now compete with U. S. Steel would have been considerably larger.

That idea also applies to TVA. But for some strange reason, many people seem to believe that TVA brought the first electricity into Tennessee; that TVA was the inventor of the hydroelectric dam. In fact, though, there were hydroelectric dams--and electric lights in Tennessee homes--long before TVA arrived on the scene. TVA took over the hydro dams and the electrical facilities that had been built by private enterprise. Admittedly, TVA expanded those existing facilities and built new facilities. Would private electric companies in Tennessee have done otherwise?

Naturally, TVA did contribute its facilities to the war effort. If that fact is worthy of any special notice, it can be based only on the supposition that other government agencies contributed little or nothing. Otherwise, why single out the contribution of just one department of the Federal Government?

A little thought on the matter should convince any reasonable person that TVA's contribution to the war effort, including the electricity supplied to the private company that contracted to manufacture the atomic bomb, could have been at most only an infinitesimal fraction of one per cent of the total.

In fact, if you believe that private ownership and operation of the

means of production is more efficient than government ownership and operation, you might logically arrive at the conclusion that TVA may prove to be a handicap to national defense. But on the other hand--supposing Russia to be our most logical national enemy--you might also make this deduction: Presumably, the primary difference between Communism and freedom is based on the ownership of the means of production. Thus if our government should finally take over all the means of production in this nation, our country would soon be like Russia. Then the United States and Russia wouldn't have any vital issue to fight over, unless it would be the issue of which particular gangster rules over the whole mess. That would be an unimportant detail.

### FERTILIZER

As a part of its agricultural development program, TVA manufactures and gives away various types of fertilizers. In 1947 TVA produced and gave away 57,276 tons of fertilizer. (43) The cost to you, the taxpayer, was \$2½ million. (44) That \$2½ million figure as used by TVA does not include the cost of the various demonstration, test and research programs that went with the fertilizer. This program has been going on since 1935. The cost to you, the taxpayer, so far has been almost \$23 million for the fertilizer alone. (45) The recipients of the fertilizer generally agree to pay the cost of shipping it to their farms. And they must sign contracts with TVA to use the fertilizer when, where, and how TVA directs.

The cost of this "free" fertilizer to you, the taxpayer, is small when compared to what is now being proposed in the National Soil Fertility Act of 1947. Among other things, it proposes the immediate construction by TVA of a large plant at Mobile, Alabama for the manufacturing of phosphatic fertilizer; the acquisition by TVA of "adequate" reserves of phosphate rock in Florida for TVA use at Muscle Shoals and in the proposed Mobile plant; and the setting up of a huge fertilizer test-demonstration program. The tests are to cover farms in all 48 states.

The cost of the Mobile plant to you, the taxpayer, has been estimated at around \$10 million. (46) The annual cost of the test-demonstration program has been estimated at around \$7 million for the fertilizer and

\$15 million for salaries, travel, etc. of the required number of federal agents. (46) It is difficult to estimate the cost of leasing the Florida phosphate beds, research, surveys and exploration. But in addition to the large capital outlay -- whatever that final figure may be -- the annual cost of operating the complete program has been estimated at about \$30 million. (46) Apparently you, the taxpayer, are to pay the entire bill.

The reasoning behind the TVA fertilizer program is based on two questionable theories. First, the TVA "free" fertilizer advocates maintain that private enterprise can't, or won't, meet the consumer demand for fertilizer. Here is a table of the consumption of fertilizer in the United States for selected years: (47)

<u>Year</u>	<u>Total Tons Consumed</u>
1920	7,177,000
1921	4,863,000
1930	8,222,000
1932	4,385,000
1937	8,226,000

Several deductions can be made from this table. For instance, the private fertilizer factories that were turning out about 7 million tons in 1920 did not deliberately close up shop in 1921. The decrease in consumer demand forced them to restrict production.

Likewise, it was the increase in consumer demand that caused the private fertilizer companies to double their production from 1921 to 1930.

Again in 1932 demand fell off. Thus supply was restricted auto-

matically. By 1937, demand had increased. Naturally, supply increased along with it. But by then a new factor had entered the picture: TVA was giving away fertilizer. The private companies found it a little hard to compete on that basis. Thus, again, the advocates of government ownership of the means of production could exclaim, "See, the government can do it better."

Today, the immediate demand for fertilizer does appear to be greater than the immediate supply. Thus, the advocates of bigger and better TVA's are demanding that the government take over, because according to them, the theory of demand and supply through a free market has been exploded once and for all.

They conveniently forget that the past government policy of "free" fertilizer and other restrictions against a free market economy are primarily responsible for the temporary inability of private fertilizer companies to meet current demand. A secondary reason for supply shortage is the recent war. If the government is to take over all industries that are temporarily unable to meet this inflation-caused demand, that will be the end of the automobile, steel and oil industries. Obviously, the advocates of government ownership of the means of production would be quite happy to see that happen.

The second questionable theory that is causing the socialization of the fertilizer industry is the claim that private companies charge "too much." Here is another table of selected years that has a bearing on that question:(48)

Wholesale Price (per 20 lb. unit) of  
Important Fertilizer Materials

<u>Year</u>	<u>Ammonium Sulphate</u>	<u>Superphosphate (Baltimore)</u>	<u>Muriate of Potash</u>
1921	\$ 2.41	\$ .81	\$ 1.04
1930	1.79	.54	.68
1932	1.02	.46	.68
1937	1.32	.51	.51
1940	1.37	.52	.52
1944	1.42	.64	.52

Even if the advocates of government ownership could actually tell how much is "too much", they would have a difficult time blasting the price record of private fertilizer companies in America. But they can still bring in the unwary and greedy with the promise of fertilizer "for free." It is difficult to defeat the candidate who promises something for nothing. The best that can be done is to point out to the voters that there is no such animal.

Finally, it is agreed that the proper fertilizer correctly applied at the right time is beneficial to crops and land. It did not require the TVA expenditure of many millions of your tax dollars to prove that point. Free individual farmers discovered that principle long before TVA set out to clinch the argument.

TVA has also proved that if farmers are offered free fertilizer, the demand will increase. True. It will also work with houses,

automobiles, ice cream and electricity.

This chapter on fertilizer ends the analysis of TVA finances and accounting practices. But before proceeding to the TVA "idea", this observation should be made: The figures so far presented in this study have shown TVA to be a financial failure. But the figures issued by TVA "prove conclusively" that TVA is a financial success. The actual figures presented by TVA are probably correct, just as the figures in this book are as accurate as a considerable amount of painstaking research could make them.

"But isn't that a contradiction?" you may exclaim. "If the figures in this study are correct, then surely the TVA figures must be wrong!"

It isn't that simple. For instance, the TVA figures do not include interest, federal taxes and other subsidies that are included here. Furthermore, this reporter is convinced that the TVA allocations to flood control and navigation should rightfully be charged against the production of electricity instead of against you, the taxpayer, as is now the case. Thus, as is usually necessary with statistics, they must be interpreted. You are to be the sole judge as to which interpretation is correct.

But when you have evaluated the financial problems of TVA to your own satisfaction, this most vital point still remains: Even if TVA did pay interest, taxes and all the other customary costs of doing business in America, that would not necessarily make the production of electricity a proper function of government. That issue should be determined by

more important considerations. Those considerations are delt with in the following chapters.

FEDERAL ADMINISTRATIVE AGENCIES\*

Today, whether we are aware of it or not, our country is largely dominated by federal administrative agencies. TVA is one example in the field of electricity production. There are also federal administrative agencies for housing, banking, labor, insurance, farming, communications, shipping, railroads, and a host of others covering almost any phase of our economy that you care to mention.

The daily decisions made by these federal administrative agencies directly affect the well-being of everyone. This is due to the fact that the operating rules and regulations decided on by the officials of federal administrative agencies have as much weight and influence as do laws passed by Congress. And generally speaking, the decisions of these federal administrative agencies are not subject to the customary checks and balances--and judicial review--that used to be considered a fundamental part of our form of government. Most persons of moderate means just don't have the money necessary to test an administrative decision in the courts. And even if they did, the courts are not permitted to decide whether the administrative decision, in itself, is just or unjust. As in

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\* Several of the ideas in this chapter are based on the thought-provoking article written by Roscoe Pound, Dean of Harvard Law School for twenty years, in the April 1946 issue of American Affairs. In his article, Administrative Absolutism, Dr. Pound develops this same theme by contrasting the operating methods of administrative agencies and the courts.

the NRA case, the courts can decide that an administrative agency is unconstitutional. But other than that--a rare occurrence--the courts are confined to deciding whether the administrative agency has, or has not, exceeded the limits of the powers given it--usually broad and vaguely defined.

As Dr. Roscoe Pound said in discussing this subject: "We have been coming in practice to a condition of what may well be called administrative absolutism." According to Webster the definition of absolutism is, "The doctrine of unconditional power vested in an autocrat; despotism." Thus it behooves us to take a close look at just what is contained in this package labeled Federal Administrative Agency or Federal Authority.

Again, and most important, administrative rule-making and regulations have the force of law. In practice they are law. Administrative rules and regulations often affect interests of vital importance to the persons concerned. These administrative decisions by TVA officials directly or indirectly affect farming, shipping by both rail and water, soil conservation, saw mills, and a host of other persons and jobs already mentioned in the preceeding chapter. And usually the first knowledge that a person has of a new administrative rule is after it is in operation. In practice usually the first opportunity that he has to object to this new administrative regulation is after the agency officials try to enforce their decision against him. Then the person affected by the decision

of the administrative agency may be given an opportunity to question it in court if he so desires. But by then, serious injury may have been done to him and his livelihood.

It is claimed by the advocates of Federal Authorities that "simplicity of procedure and nontechnical methods" result from this new type of administrative "justice." Admittedly they are simple and nontechnical. The Authority says move, and you move--or else dig up the money for a long court battle. The Authority says such-and-such is to be done, and it is done--or else you may be faced with the full power of the Federal Government. And as an additional trap for the citizen who is honestly trying to obey the law, the administrative decisions that represent law may be changed from day to day, or even from hour to hour. In practice, all that is necessary to bring this about is for an administrative agency official to decide to issue a new regulation. For purposes of "simple nontechnical procedure," he has been given what amounts to the right to make up laws as he goes along. That is the equivalent of saying that what the government does is law. In that case, we would be perfectly correct in referring to policemen as "the law."

Apparently that is what the advocates of government ownership mean by "a decentralized administration of centralized authority (TVA)." But in the case of TVA and other federal authorities, it simply means that persons who are not directly subject to your vote are often given the power to tell you what you must do. That is a high price to pay for the

alleged efficiency of federal authorities. That concept of government is the exact opposite of a Representative Republic where the law is as binding upon government as upon anyone or anything else.

For instance, when an administrative agency--FCC, TVA, ICC, or whatever--receives or instigates a complaint against a person who has allegedly violated one of its decrees, this procedure is often followed: The agency officials begin an investigation. In effect, this often amounts to a prosecution of the accused even before he hears about the investigation. The administrative agencies allow their own investigators to act as prosecutors! And quite frequently, the administrative agencies make their decisions in secret conference with these same investigators!

This procedure is contrary to the most elemental principle of justice. An American court summed it up in these words: "One of the rights secured to an accused person by the law of the land is that his accuser shall not at the same time be his judge; that is a principle of law that is fundamental; it is the first requisite to a fair and impartial trial; it is a privilege that the law of the land guarantees to every man when his life or liberty, good name, fame or property is involved." (51)

It is claimed that administrative agencies, by their very nature, cannot separate their investigating and judicial duties. That is true. The key words are "by their very nature." When our forefathers rebelled against the administrative agents of George III, they did so because they knew that justice could not exist when one person or one agency was in-

investigator, prosecutor and judge. Thus they rejected that concept of government. They set up a representative government with distinct divisions of authority. Were they wrong? Should the Congress and courts act as rubber stamps for the executive? Should states' rights be abolished in the name of simplicity and efficiency? Should we have regional authorities that have been granted the right to make up their own rules and regulations as they go along? Presuming for the moment that these regional authorities really accomplish their aims, is flood control or navigation or cheap electricity worth this price of administrative absolutism? If so, it might be a good idea to have more TVA's. If not, what about the TVA that we already have?

At this point it should be noted that the officials of federal administration agencies are not overt conspirators who are deliberately involved in a huge conspiracy to overthrow the American Government. A few of them may be agents of a foreign country or idea, but the vast majority of government officials are sincere Americans who are doing what they consider best for the people. They honestly believe that the people will be more prosperous and happy under increased government regulation and control. They believe that government can actually produce electricity more efficiently and at lower cost than private enterprise. They believe that government should build houses for people who can't afford them. In their estimation, it is both fair and logical for government to tax a billion dollars from all of the people to be used in

Tennessee for a few of the people. To them, that is an unquestionably proper function of an enlightened government. They are filled with an intense zeal to bring peace, happiness and prosperity to everyone.

Thus it is not their motives that are questioned. Rather it is the means that they use in the attempt to gain these desired ends. The first of these means to be questioned is the assumption that one person actually knows what is "best" for another person. The second is the assumption that a government agency is the proper vehicle for getting the job done. The third is the assumption that government can do it better than a private agency. The final means may be called the "cult of force." This is the belief that the force of government should be used to crush all persons who oppose these "desirable social gains."

This leaves two questions that only you can answer for yourself. First, does the end justify the means? In any case? In this one case? If so, can these self-styled omnipotent persons really produce the desired ends, even if they are given the legal authority to force you to do as they wish?

THE UTILITY LOBBY IN WASHINGTON

Yes, just as is claimed by the advocates of government power production, there is a powerful private utility lobby in Washington. In fact, there are two of them. One is devoting all of its time and money toward the socialization of the electrical industry in America. It is devoting strenuous efforts toward increasing government ownership and operation of the means of producing electricity. And it is eminently successful in accomplishing its objective.

The following quotations from an article in the Wall Street Journal of May 13, 1948, present a brief but accurate summary of this queer situation: "... private utilities have gone all-out for expansion of federal hydroelectric projects in the Pacific northwest. Until recently, they fought public power ownership tooth-and-nail, but the need now is so great they believe expansion of federal projects is the only solution.

"This compromise, however, has not affected their battle to retain the right to distribute federally-generated power. Any additional energy, they maintain, should be sold to private utilities for transmission over their lines. They also want five-year contracts with the government, 'so we'll know where we stand in the future,' instead of the year-to-year contracts which the Bonneville administration insists on writing.

"Another gripe of private utility men here is lack of a unified government power policy. They blame Congress for purse-pinching on power funds. . .

"One utility executive asked: 'Is the government going ahead and develop hydroelectric power to take care of the load growth of this area, or is it going to piddle along with token appropriations?'

"They fear . . . that Congress will turn the Bonneville appropriation for the next fiscal year downward . . . "

Nor is this attitude confined to the Pacific northwest. It appears to be generally held throughout the industry. For instance, the New York World-Telegram of June 1, 1948, carries a story on the annual meeting of the Edison Electric Institute: "He /the president of E.E.I./ . . . advocated federal development of water resources . . . But there, he said, the government's part in such projects should end. 'Our utilities,' he declared, 'should absorb and market power from new government dams. . . ' "

When this study of the socialization of the electrical industry was first begun, this writer assumed that all owners of private electric companies were opposed to government ownership of power production. But that has proved to be a questionable assumption. There is much evidence -- including conversations with 28 private utility executives -- to indicate that many owners of private electric companies are not opposed to government ownership and operation of the means of

producing hydroelectricity. Apparently some of them don't care who or what controls the production of electricity, so long as privately owned companies are permitted to distribute it.

As a result of this attitude, we now have the peculiar situation of two private power lobbies in Washington -- one devoted to preventing government ownership and operation of the means of producing electricity; the other devoted to increasing government ownership and operation of the means of producing electricity!

The goal of the first lobby is to prevent government construction of a TVA steam generating plant at New Johnsonville, Tennessee. This lobby dwells at length on the evils of government ownership and operation of the means of production.

The goal of the second lobby is to speed up government construction of hydroelectric dams in various sections of the country, but particularly in the west and the Pacific northwest. This lobby dwells at length on the absolute necessity of government-produced power to save America.

The spokesmen for private electric companies are quick to explain this seeming contradiction. But when all is said and done, this fact still remains: In the case of the steam generating plant under TVA, the government would control the distribution of the resulting electricity. No private electric company would make a penny from it. But in the case of government-built hydro dams, the resulting electricity

is (for the time being) usually distributed by privately owned companies at a profit to the owners.

In other words, many private electric company executives now seem quite willing to have the government use your tax money to subsidize them through government-built hydroelectric dams. But they are still bitterly opposed to governmental subsidization of the co-operatives and the individual consumers of TVA electricity.

One method of government subsidy is just as wrong as the other. If you claim to be a principled person, you cannot defend the one while condemning the other. If you try it, you must substitute expediency for principle. That is the beginning of the end of freedom and justice.

The private electric company officials are not fooled by the navigation and flood control arguments of TVA. They have always been aware that TVA was designed for the primary purpose of producing and distributing electricity. Nor are they deceived by the navigation-irrigation-flood control arguments advanced by government on behalf of its dams on other rivers in other sections of the country. Again they know that the primary purpose has generally been the production of electricity. As near as can be determined, many of them now oppose the one and favor the other only because in the first case the government itself distributes the electricity, while in the second case the private companies are permitted to distribute it.

For instance, an electric company executive asked this question in a private conversation: "How can we stop the government from taking over the electrical industry? The situation is getting desperate."

"Are you in favor of the government-built Grand Coulee hydro-electric dam?" he was asked.

"Why, yes," he answered, seemingly surprised at such a question.

"Why are you in favor of it?"

"Because private enterprise couldn't build a dam that big and expensive," he said.

"Couldn't, or wouldn't?" he was asked. "Private industry has sufficient money and materials. The Engineers and construction men would have worked just as well for a private company as for the government. Now did private industry not build the dam because it couldn't do it, or because it wouldn't do it?"

The electric company executive then admitted that private industry could have built Grand Coulee if it had wanted to.

"Then why didn't private industry build it?"

Finally he admitted that the dam probably wasn't worth what it cost to build. He said that at least he would never have bought stock in any private company that decided to build it. He agreed that probably it would never have been built unless the government had used the taxpayers' money to make up the difference between value

and cost. He admitted that such a procedure is socialism -- as costly and inefficient and destructive as socialism always finally ends up to be. Yet he is still not opposed to Grand Coulee nor, with the exception of TVA, to any of the other government hydroelectric projects, so long as the government permits his and other private companies to distribute the electricity.

It is a contradiction in logic to claim that government can produce electricity but can't distribute it. If government should own and operate the means of producing electricity, there is no logical reason why it should not also own and operate the means of distributing it.

Thus we have one of the main reasons why socialism -- government ownership of the means of production -- is taking over America. Many of the leaders of private industry themselves are either in favor of it, or have given up all hope of stopping it. Apparently the efforts of some of them are now mostly devoted to making the best possible deal for themselves.

This is a logical place to get one point perfectly straight: If any private company produces a desired product or service at a cost the consumer is willing to pay, there is no reason why it shouldn't prosper. Most private electric companies meet this test. But if any company can't produce efficiently, then it should fail. The electrical

industry was chosen for this study only because it seems to be in imminent danger of complete socialization. Nor does this study make any distinction among the Hoover Dam, Bonneville Dam, Pick-Sloan Plan, or TVA types of socialism. The principle is the same in all cases. One is just as undesirable as the other among a free people in a free economy. The only reason that so much space has been given to TVA in this study is because it is the "knight in shining armor" among the government's experiments in socialism. It is to be hoped that if the TVA myth of superiority and efficiency can be revealed as little more than a monopoly supported by taxation, the other less popular socialistic projects will fall automatically.

In the final analysis, this study concerns persons, and not things. When we speak of the socialization of the electrical industry, we are, of course, referring to persons. Electricity doesn't care who or what produces it. Electricity is still electricity, whether it is distributed by government or by private enterprise. When we speak of controlled production or controlled prices, we really mean controlled persons. Under a controlled economy, it is persons -- not things -- who are told by government what they must or must not do. That is the vital issue. And you, the individual consumer of electricity, have just as much at stake

as does the private producer of electricity.

If the battle for liberty -- for the individual responsibility that is freedom -- is to be won, it is you who must win it.

## MONOPOLY OR COMPETITION

The advocates of government ownership and operation of the means of production place the power industry at the top of their list. They offer various reasons for this. Until recently, it was claimed that the power industry was "clothed in the public interest." True. But so is the baking industry and the shoe industry. In fact, it would be difficult to find any industry that is not clothed in the public interest. Thus the government ownership advocates have hit upon a more effective battlecry: Monopoly!

In one sense of the word, the old village blacksmith had a monopoly. His was usually the only shop for miles around. But he had no monopoly because he could not raise his price above the price fixed by free competition. That was true because he operated under free and open competition. If his price got too high, one or all of several things happened. A rival shop opened across the street. Or the farmers shod their own horses. Or they took their business to a nearby town. Thus exclusive physical possession of a site or a service cannot in itself necessarily be called monopoly, and cannot by itself necessarily destroy competition. This holds true as long as competition -- actual or possible -- is not legally forbidden or criminally suppressed. Government holds the sole responsibility for both of these dangers.

The chances are that the only blacksmith shop, or the only barber shop, or the only any other shop in town was never seriously considered a monopoly by anyone. And there was no valid reason why they should have been considered as such. If they were truly monopolies, then this country was -- and is -- filled with hundreds-of-thousands of similar monopolies.

Now is there really something about electricity that frees it from the primary competitive factors that control other industries? The advocates of government power production say yes. So let us examine some of their arguments.

First comes the accusation that all electric companies have exclusive franchises. That is not true.

As long ago as 1909, a reputable authority on the subject of franchises wrote, “. . . the ancient antipathy of the people to monopoly in any form, and the fear that a public utility legally established as a monopoly would be especially difficult to regulate, have resulted in the enactment of constitutional provisions in various states forbidding the grant of exclusive franchise. Where such a provision is not found in the constitution, it might be included in the laws of the state by which franchise granting authority is delegated to the localities, or it may be made a part of the municipal charter enacted by the people in those states in which home rule charters prevail.” (61)

The laws of at least forty-five states now specifically forbid the issuing of exclusive franchises. In fact, in most states, the legislatures themselves are constitutionally forbidden the right to grant an exclusive franchise even if they should desire to do so by a special act. It is questionable whether the laws of any state now permit a city to issue an exclusive or perpetual franchise.

This situation was attested to in a rather dramatic manner when fourteen private power companies got together and sued TVA. The power companies, in effect, claimed that direct competition was illegal and contrary to the charters and local franchises that the various states and communities had granted to the private companies. The Supreme Court ruled:

“...neither their charters nor their local franchises involve the grant of a monopoly or render competition illegal. The franchise to exist as a corporation, and to function as a public utility, in the absence of a specific charter contract on the subject, creates no right to be free of competition, and affords the corporation no legal cause of complaint by reason of the state's subsequently authorizing another to enter and operate in the same field. The local franchises, while having elements of property, confer no contractual or property right to be free of competition either from individuals, other public utility corporations, or the state or municipality granting the franchises.” (62)

Thus, because of the TVA threat to use your taxes to build competing lines -- and to sell subsidized electricity at lower rates -- the private companies were forced to sell out at terms suitable to TVA.

Prior to TVA, the electric companies in the Tennessee Valley were not automatically free from direct competition among themselves and from outsiders. They had no exclusive or perpetual franchises. Then the Federal Government moved in with its discriminatory rates; its subsidized program; its threats and promises. That meant the end of the possibility of regulation by direct competition because, short of a revolution, the state and local governments cannot very well throw the Federal Government out. Thus a single monopoly has taken over an entire region. It is called "TVA: the decentralized administration of centralized authority."

It is true that many electric companies once were given exclusive franchises for long periods of time. This was one of the prices paid to attract the new industry into the cities and towns that wanted electricity. But competition soon put a stop to that practice. The states and cities soon discovered that rival companies were willing to supply electricity without exclusive franchises. Thus the cities chose the company that made the best offer. Isolated cases of exclusive franchises may still be found today. But if so, they are so rare as to be of no consequence.

Actually, what private electric companies now receive from state and local governments is the right to exist and to do business; specific permission to use the streets and highways to deliver their product to their customers; eminent domain.

That does not differ from many other types of business. Every corporation must secure a charter or franchise from government before it can exist and do business. In no sense of the word does this make any corporation a monopoly.

Most companies and persons who use the streets and highways to serve their customers must, in one form or another, receive permission from government to do so. This includes bakeries, milk wagons, push-carts, and, in many instances, door-to-door salesmen who walk. The permission may take the form of a license plate for private automobiles, a peddler's yearly license, or specific written permission for a particular job for a limited time.

The only monopoly in this procedure is government's right to deny permission to a competitor to use the streets. So certainly the electric companies should not be called monopolies on this count. The accusation should be directed against the agency that forbids competition. Government, and not private enterprise, is the culprit.

And as for eminent domain, that right is of a necessity given to many other types of business. They include railroads, ferries, universities, housing, parks, mines, hospitals and a host of others. It has been customary for government to give the right of eminent domain to any business that needs it. Otherwise one property owner could stop almost any project because of pique or sheer greed. Eminent domain in itself is not necessarily a bad idea. But as used by TVA and other federal administrative agencies, it could become a force for evil. For instance, private companies must prove the property owner wrong before his property can be condemned. The private companies must prove their case in courts that assume the property owner to be right until proved otherwise. But in the case of TVA, the procedure seems to be reversed. Since TVA is the Federal Government, the individual property owner is faced with almost insurmountable odds in proving his case.

Thus, from the viewpoint of forbidding competition, private power companies cannot accurately be called monopolies. It is true that usually only one power company serves a given area. But even this has its exceptions. According to Federal Power Commission data, in 1944 there were over 100 cities with populations of more than 2,500 where two or more power companies were in a position to compete directly. Seattle, Washington is probably the best example of this. In that example, two power companies directly

compete throughout the city. In most of the other cases, however, the direct competition usually occurs on a smaller scale. But the fact remains that the only reason why there is not more direct competition in many other cities is because government has decided that one power company under government regulation gives better service and lower prices than would competing companies. That decision by government is subject to serious questioning. For instance, why should a competing company move in unless it can offer a better service at a lower price? Would that not be to the advantage of the consumer? It is true that the least efficient of the two competing companies might go broke. That would be of small importance. It would be well worth it if the consumer thereby got a superior product. However that may be, at least the mere threat of inviting in a rival power company is considered by many to be sufficient direct "competition" to cause the present company to keep its price low and its service high.

Then there are the other forms of direct competition that all private power companies must meet. For instance, manufacturing plants, apartment houses, stores, hotels, farms and many other types of business can and frequently do install and operate their own electric generating equipment. "Of the 143.2 billion kilowatt-hours generated and purchased by manufacturing and extracting establishments in 1945, . . . 31.1 per cent . . . came from their

own generating plants''! (63) And there is nothing to prevent them from generating all their electricity. In fact, they would do just that if it were not for the fact that power companies sell electricity at such low rates.

In addition, all power companies must meet direct competition from substitute and alternate forms of heat and energy. For instance, electricity, gas, oil, coal, wood, bottled gas and waste steam are alternate and competing ways of cooking, heating water, and heating houses and plants. Electricity, gas and oil are alternate methods for refrigeration and air conditioning. Steam, gas and Diesel engines under many circumstances are alternates for electric power.

And, finally, there remains the most effective competition of all. The electric companies must compete with everyone else for the consumer's dollar. If the price of electricity is low enough, the consumer may, for instance, buy that new electric stove or television set. But if he considers the price of electricity too high, he will buy something else with his money. It has been proved over and over again that, within obvious limits, the electric companies can make more profits by offering lower and lower prices. They know it. And they have been following that principle from the day that the first generating plant was built in America. If private electric companies doubled their prices today, the chances are that they would make less money, not more. That is a fundamental economic

phenomenon that is taught in almost every book on economics. That one fact alone will continue to insure comparatively low electric rates and comparatively good service.

In addition to this "law of diminishing returns," there is another effective brake that works against uneconomic and exorbitant price increases. It is public opinion and a free press! Private power company officials and stockholders are just as sensitive to criticism by the press and public as are the officials and stockholders of any other business. Newspapers and magazines can and do publish the rates and policies of various private power companies. The customers can and do make their own comparisons. When the rates among various companies show large variations, both the press and public demand to know why. And the influence of public opinion is such that the power companies feel obligated to explain why their rates have been increased. While this "competition" or "regulation by public opinion" defies any exact measurement, it is still a powerful weapon against inefficient -- and sometimes stupid-- management.

Of course, there are many persons who claim that this country does not have a free press. There are others who claim that public opinion is not permitted to have influence in the United States. Significantly enough, those persons are frequently the same ones who claim that Russia has a free press and a democratic form of

government.

How about the effectiveness of regulation by power commissions?

This item is from the New York World Telegram of Aug. 2, 1948:

“Electricity and commercial gas are the only consumer items which have gone down in price since 1939, according to the U. S. Bureau of Labor Statistics.”

And as for those persons who believe that government regulation has been the primary reason for the decreasing price of electricity, here are a few contrasts worth considering. If government regulation can really repeal the laws of economics, and cause a price decrease, why are railroad rates under the Interstate Commerce Commission increasing? Why does government housing now cost more than housing ever cost before? Why have postal rates increased? Why has the cost of government itself now reached its highest point in history? And so on.

In total effect, the government power commissions have probably performed little, if any, vital service whatever. Fortunately they have also probably done little harm. Generally their decisions have followed the market trends. That, of course, is just what the power companies would have done if left completely alone. In conversations with many utility executives, this question was always asked: “If there had been no government regulation, how would your prices and services compare with what now exists?”

Their answers add up to this: Service would be equally as good. Services have improved, not because government decreed it, but because of technological and financial improvements. If there had been no government regulation, price per kilowatt hour might be a fraction of a cent higher. In practically all cases, price cuts may have come a bit slower. But prices would have come down, under the prevailing market conditions, because the power companies could make more money by decreasing them.

Now, unfortunately, the government regulatory commissions are in a position to do real injury to both the producers of electricity and the consumers of electricity. In the face of constantly rising costs -- due to expansion of government, currency inflation and restriction of enterprise, with consequent increases in cost of labor and material -- most private power companies cannot continue to cut their rates. Many of them are now compelled to increase rates if they are to stay in business. But the government power commissions are reluctant to permit this needed increase. It might not set well politically or otherwise. That policy must eventually result in still higher prices and poorer service at a later date. After all, private power companies can no more ignore economic facts than can any other business.

Finally, private power companies are not monopolies. Since they cannot forbid competition, they cannot fix prices. TVA is a

monopoly because government can fix prices and forbid competition. Private power companies are not granted exclusive or perpetual franchises. In effect, TVA has an exclusive franchise; as a fact, TVA has a perpetual franchise. If private power companies wish to stay in business, they must conform to the decrees of a competitive market and economic trends. TVA does not. TVA is the Federal Government, with access to the federal treasury to make up its losses.

But in spite of the above facts about the competitive nature of private power companies, it is still true that you, the consumer, generally do not have a choice between two companies when you wish to purchase electricity. Since there is usually only one company to offer you the service, you may still logically believe that a form of monopoly does exist. But your protest should be directed against government instead of private utilities. The decision to issue charters and franchises to only one electric company in a specified area was a governmental decision. And government can reverse that decision today, if it wishes to -- or if enough voters demand it. But this much is certain: The proper solution to the evils of monopoly is not more monopoly. The solution to the alleged private power company monopolies is not to combine them into one huge government monopoly like TVA. It is monopoly itself that should be attacked, regardless

of who or what controls it.

And in considering this subject of monopoly, can competition be legally forbidden by anyone or anything other than government? If competition is criminally suppressed, is not government responsible for permitting the criminals to remain unpunished? If there is no legal or criminal suppression of competition, can true monopoly exist? Thus is it possible for monopoly to exist without the permission of -- or default by -- government?

Finally we come to the most popular argument of all against direct competition among utilities. It is advanced by both government-owned and privately-owned gas and electric companies. They claim that directly competing companies would cause unnecessary inconvenience to the public. There would be considerable traffic interruption while cable-laying goes on. True enough. But this "breaking up the streets" argument has been used from time immemorial by vested interests trying to keep competitors from entering the field. In connection with the electrical industry, it was probably used before 1886 in England. In that year, when this argument was advanced as a reason for keeping out electricity, Lord Bramwell retorted to the Town Clerk of Leeds, ". . . as to the breaking up of the streets, I believe it is all moonshine;" (64)

Usually, as was the case with the municipally-owned gas company of Leeds, this "breaking up the streets" argument appears to be mainly used in an effort to prevent direct competition. In fact, most of the government-owned and privately-owned gas companies in the England of 1880 made much use of this argument to prevent electricity from entering their territories. As a result, the newly-formed private electric companies resorted to the tactic of running their lines over the roof tops of the houses. As soon as that happened, the gas companies advanced the "ugliness" argument. This vested interest opposition, resulting in the stringent regulations contained in the Electric Lighting Act passed by Parliament in 1882, almost killed the new industry in England. "At the close of 1888, there were in operation in the United Kingdom twelve central electric stations." (65) But because of direct competition and practically no government regulation, "In the United States there were . . . a grand total of 574 central electric stations in operation at the close of 1888." (66)

In 1888, the English Parliament relaxed some of its rigid controls over the new industry. But the remaining controls were still tight enough to keep the progress of electricity in England far behind the United States of direct competition and weak governmental regulations. It was somewhere in this period of time that the United States became the industrial leader of the world. The inconvenience

of traffic interruptions, and the ugliness of two sets of electric light poles, were a cheap price to pay for this progress.

Maybe Karl Marx was correct when he theorized that socialism can come only after competitive capitalism has flourished. Otherwise there is little to socialize.

### THE "BROKEN WINDOW" FALLACY

Probably most of our economic ills can be traced to a fallacy that has misled mankind since the first formal government was organized. A French economist, Frederic Bastiat, formulated this fallacy into a simple story more than a century ago. He called it the fallacy of the broken window.

A young hoodlum threw a rock through the window of a bakery. A crowd gathered. One man said, "Well, it isn't too bad. Just think -- the baker must buy a new window. That will mean more work for the glass makers. Thus employment will be increased. The glass makers will have more money to spend. They will buy more products, including more of the baker's bread. That means more prosperity for him and for everyone." The majority nodded agreement to his "wisdom."

Apparently the majority of people today -- including our government officials -- are still nodding agreement to this utter nonsense. And TVA is probably the best example of all.

The point that the group gathered outside that broken window didn't get is this: They were speaking only of the things that they could see. They completely ignored another side of the picture. The baker was planning on buying, for instance, a new suit from the tailor across the street. But instead, he was forced to buy a

new window. Thus the work and prosperity created by the purchase of the new window was cancelled out by the work and prosperity not created because the suit was not purchased. The suit -- the new work and prosperity -- was not permitted to come into being. Just as much work and prosperity would have been created by the purchase of the suit as by the purchase of the window. Thus the community and wage earners as a group, were no better off. In fact, they were worse off by the amount of wealth that was destroyed.

The only thing that happened is that the glass workers were favored over the tailors. For every new glass worker hired, the same number of tailors were fired or not hired. And, in addition, the baker did not get his new suit. All he got was a window to replace the window that he already had.

It is this hidden loss that seems to fool most of the people all of the time. They can actually see the TVA dams. They can count the persons hired to build the dams. Pictures and glowing descriptions of TVA can be sent all over the world. But when you try to explain to those people that TVA actually caused an equal number of persons not to be hired, all you will get is a blank stare. They can't see the eggs, hats and shoes that Mr. and Mrs. Jones never bought because \$23 of their money was taken in taxes to pay for TVA. (67) They can't see the number

of new factories and jobs that would have come into existence if the government had allowed the millions of Mr. and Mrs. Joneses to spend their \$23 as they wished. No, they can't see it because it was never permitted to happen. Thus there are no pictures and publicity. Yet, the fact of the matter is that the hundreds of millions of dollars that were used to build TVA would have created just as much work -- and more happiness and prosperity -- if the individual taxpayers had been permitted to spend the money. This is true because if they had not been forced to pay for TVA, the taxpayers would have spent their money on something they needed and wanted instead of on "free" navigation, "free" fertilizer, and "cheap" electricity for the TVA customers.

Anyway, by what moral right does government force you to pay for benefits not received? Why should government be permitted to tell you how you must spend your own money? Where are the God-given credentials that say that government officials -- elected or appointed -- know how to spend your money better than you do? If these self-styled men of destiny have such wonderful plans for the economic well-being of the people, why don't they put their ideas and plans on the open market? Then you would be free to invest or not invest, as you see fit. But under so-called public ownership, you have no choice. You become an "investor" whether you like it or not. You "own" a share of something that you can't control.

You can't live in it, or eat it, or wear it, or use it, or sell it. Is that ownership?

What it really is may best be defined by this observation:

Isn't it rather revealing that these "humanitarians" and "public benefactors" always strive to get hold of the organized police force of government to make people conform to their plans? Isn't it odd that they never succeed on a voluntary basis, but must always have the power to force you to do as they wish?

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TV A  
file

A PROPER FUNCTION OF GOVERNMENT

In spite of many accusations to the contrary, bureaucracy as such is not necessarily undesirable. In fact, there must necessarily be bureaucracy if there is government. And, conversely, whatever government does must be done through government bureaus and by bureaucrats. Our courts and police forces, for instance, are government bureaus. Our judges and policemen are bureaucrats; they are government employees. Thus government service -- bureaucracy -- is a necessary and honorable profession.

The actual cost of performing a proper bureaucratic service is, and should be, purely secondary. For instance, how much is it worth when a policeman prevents a murder, or captures a criminal?

The actual time involved in performing a proper bureaucratic service is, and should be, purely secondary. For instance, the Supreme Court should be judged not on an assemblyline basis of how many decisions it turns out each day, but rather on how wise those decisions are.

subjective

The so-called inefficiency of bureaucratic methods is also of secondary importance when a proper function of government is being performed. It is true that most bureaucratic decisions must be "forwarded through channels." But that is a necessary device to insure an accurate accounting of the spending of your

tax money. And it partially protects you against arbitrary decisions that may be based on the personal interest or prejudice of a government official.

Obviously, if all production and all human effort were subject to bureaucratic technicalities, controls and delays, our present high standard of living would soon be reduced to the subsistence level. The statesmen -- and students of history -- who established this government were well aware of this fact. Thus, in broad terms, they attempted to define the human relations and services that should -- and should not -- be subject to bureaucratic control.

A thoughtful reading of the Constitution and the Bill of Rights seems to indicate that the authors of our Constitution considered a proper function of Federal Government to be based on two general considerations: First, it must be something that directly concerns all of the people, <sup>equally</sup> and that requires equality of treatment. Secondly, it must be something that cannot be performed by the people themselves, individually or through voluntary organizations in a free market economy. Then, and only then, should the subject of cost enter the picture. how

If this interpretation is correct, our courts, for instance, are a proper function of government (bureaucracy) on both counts.

Certainly the courts concern all of the people directly, and require

absolute equality of treatment. Obviously, in its present stage of development, society cannot permit each person to be the sole judge of all his actions toward other persons, either individually or as a member of a voluntary group. That would be gangsterism and mob rule.

When the ownership and operation of the means of producing electricity (TVA) is subjected to this test of a proper function of government, it fails to meet any of these requirements. TVA temporarily benefits a few at the expense of all. And the only agency that can prevent the people -- individually or through voluntary organizations -- from producing their own electricity on terms acceptable to both producer and consumer is the government itself.

Even while the government defends TVA -- and plans more of them -- it readily admits that private enterprise has been responsible for the rapid growth, improving service and decreasing cost of electricity in this country. And, by the nature of the TVA Act itself, the advocates of government ownership show their awareness of the fact that private enterprise is more efficient than bureaucratic operation in the field of production. As evidence of this admission, the government deliberately designed TVA to operate as much like a private electric company as it is possible for government to do so!

Thus the answer to what is -- and what is not -- a proper function of government is not answered by hurling epithets such as "bureaucrat." Nor is it fully answered by the "efficiency" argument; nor by consulting the "profit and loss" statements alone. All of these have a bearing, but they are of secondary importance. As was suggested in the opening page of this study, the issue of government ownership and operation of the means of production (TVA) goes much deeper than any or all of the above considerations. They should be considered after other factors have largely determined whether government should or should not undertake a given function. This issue divides itself into two parts. First, do we wish to continue the principle of self-government through the medium of elected representatives who are subject to our votes at stated periods of time? If so, TVA and all other examples of government ownership and operation of the means of production must be reconsidered.

TVA is not government by representatives who are subject to your vote. TVA is government by appointed administrators whose decisions have the force of law. The principle of representative government demands that your elected representatives be directly responsible for all decisions of government. The representatives are encouraged to hire expert assistance. Few if any taxpayers object to this procedure. But, under representative government,

the final decision and responsibility must rest with your elected representatives. Either that, or the principle of government by elected representatives is dead. Cheap electricity, or even free fertilizer, is hardly worth that price.

*Appropriation* → No TVA official is subject to your vote. Not one! They are a law unto themselves. Federal Authorities and other administrative agencies are specifically designed to remove them from the control of your elected representatives. The stated purpose of this "decentralized administration of centralized authority" is to remove TVA from politics. But regardless of the purpose, it is a direct violation of the principle on which our Representative Republic was founded. In effect, TVA largely combines the legislative, judicial and executive functions of government into one agency. That is the TVA "idea." And TVA is using your tax money to spread this "new" idea throughout the land.

By definition, we cannot have both TVA and government by representation. We cannot have both TVA and the original American concept of limited government with divided powers and checks and balances. It is literally impossible. Thus you must decide which type of government you prefer.

If you decide against this "new" TVA idea, the second part of the issue then becomes this: Even if TVA should be placed

under the Department of Interior and direct control by Congress -- even if it paid interest, taxes and other costs; and even if it were a state or local project instead of a federal project -- would it thereby become a proper function of government? Admittedly this procedure would give you more voice in the management of government projects built with your tax money. But TVA as a tax paying and interest paying project under direct congressional control would still contain most of the questionable features discussed in this study. Apparently then, the final answer reverts back to these basic questions: What is a proper function of government? Since ours is called a limited form of government, just what are the limits? Should government produce electricity but not bread? Is the principle any different in either case? Should a government that is based on the principle of free enterprise -- and the individual responsibility that is individual freedom -- undertake the production of any product or service that can be produced by a private and voluntary agency? If it should produce just one, which one? If more than one, where will it stop? Once started, will it ever stop short of complete government ownership and operation of all the means of production?

This issue is vital. The answer -- as it should be -- is left with you.

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